

TAPR IQC Egypt
Technical Assistance to Support Economic Policy Reform

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Task Order 1: Delivery of TAPR Core Management Team

Customs Roundtable



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Summary
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January 22, 2002
Cecil Hotel, Alexandria

Roberta Mahoney, Associate Mission Director, Office of Economic Growth, USAID opened the roundtable by asking panelists to give their frank opinions about customs issues. She then introduced Tony Chan, Division Chief, Sector Policy Office, USAID who asked the panelists to offer suggestions on who USAID should address and work with in assisting Egypt to improve customs services. Ali Kamel, Team Leader, DSP, USAID followed with a brief overview of the DSP program. Rasha Abdel Hakim, Senior Economist, Sector Policy Office, USAID then summarized the findings of the Customs Needs Assessment Report prepared by TAPR in August 2001.

Rasha Abdel Hakim highlighted the findings and said that the report focused on valuation followed by automation, training, and other areas. She said that Egypt had to comply with GATT by July 1, 2001 but that Decree 765 did not comply with WTO regulations. Technical assistance was offered and proposed amendments were delivered to the Ministry of Finance and the Customs Authority.

In overview the study found that extensive training is required both to introduce a new methodology as well as ideology to the Customs Authority. New customs laws must be reviewed for accuracy and compliance with WTO regulations and infrastructures must be introduced in areas of risk management, automation and post-audit procedures. Though the study found that in the short term revenue to Customs may drop, in the mid- and long-term revenues will increase as reduced costs to importers and exporters will serve to increase trade.

The study also pointed out the importance of Trade's role in making sound laws. Trade's role will increase understanding between the two parties and increase transparency in the system. The report recommends that bonds and sureties be used to increase early release of goods. There is a financial cost but the study concluded that these costs are far less than costs incurred due to delays in clearing customs. The report also recommends introducing an immediate 20% by passing of goods coming through customs. Criteria used would be the importer's record of good practice. Over time this would increase to a 25% by pass.

Adel Aref, CIP Manager, USAID/Alexandria acted as facilitator. In his opening remarks he said that customs implements what other organizations (Ministry of Health, Ministry of Agriculture and the General Organization for Exports and Imports Control (GOEIC)) tell them. The system is thus slow and cumbersome. He also said that there is of course corruption in Customs and that it stems mainly from poorly paid employees and rules and regulations that are neither transparent nor properly enforced. He then opened the floor to discussion of the issues and problems facing Egypt's customs.

Mohamed Ghatwary, CEO, Ghatwany Group said one of the biggest hurdles to overcome is a customs environment that targets a specific amount of revenue that must be collected. In short, the system is used as a revenue generating apparatus rather than as a facilitator of trade.

Kamel El Naggar, Director, El Naggar Consulting Office and former Customs administrator said that there is much resistance to change within the Customs because employees fear that automation, first introduced in 1980, will make them expendable. He suggested that transparency is the best remedy for corruption and that all ports should be made open ports. Transparency coupled with automation would create a system that would allow traders to hook up to a central system and clear goods from their offices. He said obstacles are many but pointed to the inspection process as particularly problematic. Decree 106 in 2000 stated that all inspection should consist of one sample and testing be done for all authorities involved. He said there is great resistance to this, as no organization wants its authority curtailed. He added that inspections for criminal goods such as drugs and explosives are carried out without a warrant or any due cause. This causes great anxiety for the importer and consumes a great amount of time. He suggested that the goods be cleared and delivered and then the police can inspect it.

Walid El Sharkawy, Credit Manager, CIB, Alexandria said Customs is used as a way to channel funds to the government. In his opinion this is wrong and the government and customs need to have a more strategic outlook. He also said that standards required for imports should be transparent and known prior to the importation of goods. This would save lost time and confusion.

Amir Wassef, CEO, Unitel took issue with the study's suggestion that customs officers be allowed more freedom to make on the spot decisions. He said the system is already too corrupt to allow for such a move. Instead Customs should be reengineered so that ambiguities in the system be clarified. By making procedures simple and transparent the system will work smoothly and will greatly decrease the opportunity for corruption. Mr. Wassef stressed the need to address tariff distortions. He said a conveyer imported as a final product has a 5% tariff, whereas the import of parts to assemble a conveyer runs between 20% and 25%. This clearly stifles incentive to produce for export. He also added that the arbitration system takes too long. He concluded that a work incentive based on revenue generated rather than the flow of goods hurts customs and trade.

Tony Chan summarized the panelist recommendations. He said of greatest importance is the need for

- Reengineering of Customs
- A clear vision or strategy for the GOE and Customs
- Increased automation
- Rules and procedures that are both simple and transparent.

Soheir Farahat, President, INGYCO Agencies added that the concerns of Customs such as job security, low pay and proper training must also be addressed. She also said the private sector must play a great role in customs decisions. She said decisions are haphazardly made without any regard to the mid- to long-term impact.

Walid El Sharkawy suggested that Customs be designed to better represent stakeholders. A board of directors that incorporates the GOE and private sector would help improve policy making and efficiency of the system as the board would be held accountable.

Mohib Haddad, General Manager, Haddad Carpets said that we can't ignore that the GOE is using customs as a tool to control imports in order to contain the depletion of foreign reserves. Unfortunately this strategy causes the GOE to view all imports as the same rather than differentiate between finished products and inputs for production and export. Mr. Haddad added that though exporting is easier the importing of raw materials and the drawback system remain obstacles to increased exports.

Tony Chan then asked about issues regarding port services, infrastructure and financing.

Walid El Sharkawy said that the infrastructure in the ports and the rail system are both poor and need to be improved. Another problem for him as a credit manager is acquiring data on markets, companies etc. He said it is very difficult to do a credit rating or feasibility study with inaccurate or nonexistent information.

Tony Chan then asked which ministries or organizations should be key to addressing problems in the customs.

Amir Wassef said that he was very impressed with the services offered by trade representatives through the Ministry of Foreign Trade. However he said that exports' worst enemy is the GOE because of the many hidden costs that ultimately render products non-competitive in the global market.

Mohamed Ghatawary said that though the Minister of Foreign Trade is important he believes the Ministry of Finance is key as it oversees taxes and the Customs Authority. Amir Wassef added that the legal system must be brought in to any reengineering program as they are in the position to clarify rules and regulations, streamline arbitration and answer grievances.

Tony Chan asked the panelists what at this point is the priority.

Soheir Farahat said that we should start by the GOE not making quick, ill thought out decisions but rather engage the private sector in the process.

Roberta Mahoney wrapped up the meeting by restating the overall findings. She said the group agreed that

- Decisions should not be made haphazardly and are made in transparent fashion with key stakeholders playing a role.
- Trade not revenue should be the overall goal of the customs authority.
- Rules and procedures should be made simple and transparent.
- Infrastructure of ports be improved.

Roberta Mahoney thanked all the participants on behalf of USAID and adjourned the meeting at 3:00 p.m.

USAID

Robert Mahoney, Associate Mission Director
Tony Chan, Division chief, Sector Policy
Ali Kamel, Team Leader, DSP, Sector Policy
Robert Van Horn, Division chief, Commodity Import Program
Rasha Abdel Hakim, Senior Economist, Sector Policy
Adel Aref, CIP Manager, USAID Alexandria
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TAPR

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Sharon Cook, Editor

Private Sector Participants

1. Mohamed Ghatwary, Chairman, Ghatwary Group
2. Amir Wassef, General Manager, Unitel
3. Walid El Sharkawy, Credit Manager, CIB/Alexandria
4. Kamel El Nagggar, Consultant, El Nagggar Consulting Office
5. Mohib Haddad, General Manager, Haddad Carpets
6. Mohamed Nashaat, Egyptian Traders
7. Sabry Habib, Managing Director, Handi Company
8. Ashraf Khalil, Credit Manager, CIB/Alexandria
9. Atef Fatouh, Handi Company
10. Nehal Marei, Credit Manager, CIB/Alexandria
11. Farid Nagggar, Managing Director, Business Link
12. Soheir Farahat, President, INGYCO Agencies